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The Border Papers

Beyond Labels: Comparing Proposals for Closer Canada-U.S. Economic Relations

Danielle Goldfarb

The Backgrounder in Brief

This Backgrounder compares the substance of recent proposals for stronger Canada-U.S. economic relations. Despite different packaging and approaches, there is much consensus on both the need for a coherent strategy and its main substantive elements. Future policy discussions should focus on a deeper substantive assessment of the desirability, feasibility and details of a set of possible Canada-U.S. initiatives.

About the Author

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Over the past two years, numerous think tanks, academics, business groups and policy makers have published proposals to address a long-standing objective of many Canadians: more secure economic relations with the U.S. The debate on how best to manage Canada-U.S. economic integration has largely focused on process issues: should the Canadian government propose a new arrangement or pursue incremental change? Process is important because it determines the scope of what is possible. But process issues can divert Canadians' attention from an important discussion of what substantive projects might improve and secure access to the U.S. market.

This Backgrounder therefore focuses on the substance of those proposals currently circulating. If Canada decides to further safeguard and enhance its economic relations with United States, which projects would most effectively achieve this goal, while allowing Canada to maintain control in critical policy areas?

There is considerable on-going work in the bureaucracy on this question, though the government has provided only a glimpse of its position. In 2002, Pierre Pettigrew, Canada's Minister of International Trade, set out a vision for Canada in the North American economic space. He says Canada should aim to increase its share of the U.S. market, strengthen investment flows, broaden regulatory cooperation, bring trade remedy practice in line with a shared economic space, eliminate the border as an impediment to trade, investment and business development, and increase its presence in the United States.[1] Paul Martin, the incoming Prime Minister, has indicated that strengthening Canada-U.S. relations is a priority but has not yet provided many details of how that will be achieved.[2]

This *Backgrounder* aims to summarize the main proposals made by various authors, including views of those who oppose deeper integration. Though proposals for stronger Canada-U.S. economic relations have differences, many authors agree on both the need for a coherent strategy and its main substantive elements. Since existing proposals are quite general, future discussions should move beyond process towards a clearer analysis of the desirability and feasibility of various substantive elements of a Canada-U.S., or North American, package:

Scanning the Field

Table 1 highlights those proposals on deepening North American relations that are in the public domain.[3]

Cont'd on page 8

The author wishes to thank Alan Alexandroff, Wendy Dobson and Bill Robson for helpful comments on a previous draft of this paper, as well as numerous authors for ensuring I accurately captured their proposals in the table.

1 See "The Canada We Want in the North America We Are Building," Address at the 8th Annual Canadian-American Business Achievement Award and International Business Partnership Forum, Toronto, October 16 2002.

2 See "Canada's Role in a Complex World." Address to the Canadian Newspaper Association. April 30, 2003. Martin proposes a Cabinet Committee and a House of Commons Committee on Canada-U.S. relations.

3 Parliamentary committee reports on North American relations are also included as they contain a set of policy recommendations. The table is intended to highlight the main characteristics of each proposal. Please refer to the original texts for more details. Please contact me if there are other proposals that should be included. The table may be updated as new proposals become available.

Table1: *Summary of proposals for next steps on North American integration*

Category	Sub-Category	Schwanen (2001)	Hart-Dymond (2001)
What approach should we take?		Strive for interoperability between Canada and the U.S., not convergence	Develop comprehensive Canada-U.S. border initiative with common rules, procedures, institutions
Canada and the U.S., or is Mexico invited?		Bilateral, and possibly trilateral	Bilateral, but open to Mexico
Trade issues	*How to secure the physical border, while facilitating trade*	Develop better connectivity and compatibility in transportation infrastructure; address threats to trading partners stemming from cross-border movements; consider modified version of Schengen accord e.g., Canadian border guards to watch for both countries' interests	Adopt common approaches to refugee, visa, and other immigration matters; streamline or eliminate customs clearance for people and goods
	Harmonizing external tariffs as a way of eliminating rules of origin		Harmonize MFN tariffs, eliminate rules of origin
	Harmonizing, or recognizing each other's standards	Cooperate more in setting standards and regulations; streamline regulatory approval processes where broad policy objectives are same across borders	Harmonized standards or mutual recognition agreements (MRAs) for product/process standards; common (or MRAs) for services standards
	Resolving disputes and avoiding the big stick		Develop common subsidy rules
	A common competition policy?		Establish common competition rules
	Should natural resources sectors get special treatment?		
	Other ways for improving market access for goods and services		Review border policies to eliminate or reduce as many as possible; provide national treatment for government procurement
	Greater people mobility		
Should we include defense?			
One currency — or stay with two?			
Are new institutions in order?		No common political institutions or supra-national court; common independent bodies to provide fact-finding on subsidies, environmental practices, qualifications or product standards	Strengthen institutional linkages; more permanent supranational institutions
		See also Schwanen's "Let's Not Cut Corners: Unbundling the Canada-US Relationship," Policy Options, April 2003, as well as numerous speeches by IRPP's Hugh Segal.	See also Hart's "A New Accomodation with the United States: the Trade and Economic Dimension", prepared for IRPP's October 2003 Art of the State II conference.

N.A. = North America
MRAs = Mutual recognition agreements

Pastor (2001)	Dobson (2002, 2003)	Vega-Hufbauer (2002)
Build a N.A. community; deepen NAFTA (revise NAFTA preamble); establish N.A. rule-based institutions; forge N.A. responses to shared problems and opportunities	Big idea; Strategic bargain for N.A. physical and economic security; must include elements to interest the Americans	Establish common frontier; Canada/ Mexico should cooperate on security in return for open U.S. borders
Trilateral	Bilateral, but include Mexico where it makes sense	Trilateral
N.A. plan for infrastructure and transportation; trilateral customs and immigration service; converging policies on immigration and refugees	Build on Smart Border agenda; increase security and facilitate flows of low-risk goods, people, capital, technology; agree on common procedures to handle third country migrants and cargo	Move inspections away from border; jointly review visa policies; establish joint immigration teams
Negotiate a customs union in five years	Consider simple customs union (common external tariff) or "evolutionary customs union" as one element of a larger package	Establish common external tariff but retain individual negotiating positions
Using either harmonization or mutual recognition, promote greater uniformity on trucking and safety standards, environmental and labor standards; measurement, etc.	Harmonize where redundant or unnecessary obstacles, but rely heavily on creative mutual recognition	
Establish permanent N.A. court on trade and investment; begin scholarly efforts to conceptualize and develop N.A. legal system		
Negotiate common competition policy	Harmonize to a single N.A. standard for competition policy	
Develop N.A. plans on energy, agriculture and forestry	Secure natural resources area; proactive development of energy supplies; mutual recognition of regulatory regimes including energy, forest products	Enhance energy cooperation; establish compensating duties to offset agricultural subsidy differences
		Further open services markets
Issue NAFTA passport/visas	Increase labour mobility; introduce NAFTA retirement visas; broaden NAFTA visa to technical people	Develop NAFTA retirement visas, increase temporary work permits for Mexicans
Trilateral defence of the N.A. perimeter; training of N.A. peace-keeping forces	Develop distinctive "world class" Canadian contribution for N.A. defence	Develop N.A. defence alliance, including intelligence sharing, common arrest and surveillance warrants, interoperable or common coast guard
Hold regular consultations among central banks and finance ministers on macro-economic policies; consider unified currency	Dollarization is a red herring; monetary union of no interest to Americans	Establish closer financial regulation cooperation
N.A. Commission; N.A. parliamentary group; permanent N.A. court on trade and investment; meetings with cabinet ministers; regional development fund; education plan	New institutions as necessary with clear mandates and sunset provisions (many structures exist that are inactive)	

Dobson (2002) was the first in the C.D. Howe Institute's Border Papers Series.

Table1: *Summary of proposals for next steps on North American integration* cont'd.

Category	Sub-Category	House of Commons Standing Committee on Foreign Affairs and International Trade (2002)	Canadian Council of Chief Executives (2003)
What approach should we take?		Develop a coherent strategy for advancing Canadian interests and values in N.A.; remove identified barriers incrementally while considering a customs union	Comprehensive initiative to advance interests of Canadians in N.A.; framework too important to be left to incrementalism
Canada and the U.S., or is Mexico invited?		Trilateral	Bilateral if only two countries ready, trilateral if all three ready; build on natural agendas instead of forcing to fit into trilateral process
Trade issues	*How to secure the physical border, while facilitating trade*	Accelerate construction of infrastructure at existing border points; ensure border staffing and training is adequate; modernize customs requirements; review long-term options including N.A. security perimeter	Reinvent border; shift border enforcement to approaches to North America; shared approaches to commercial processing, infrastructure, intelligence and policing; develop N.A. identity document
	Harmonizing external tariffs as a way of eliminating rules of origin	Study possibility of a customs union	Undertake customs initiative to reduce differences in treatment of third-country goods and eliminate need for rules of origin requirements
	Harmonizing, or recognizing each other's standards	Develop MRAs for existing regulations	Harmonize or pursue MRAs; develop shared technical groups to advise
	Resolving disputes and avoiding the big stick	Institute formal system for repaying trade-remedy penalities when Chapter 19 panel rules duties imposed in error; develop common N.A. trade remedy regime	Undertake major initiative to reduce threat of trade disputes and resolve resource pricing and subsidy issues; address use of trade remedies within a de facto integrated market
	A common competition policy?		
	Should natural-resources sectors get special treatment?		Negotiate comprehensive resource security pact, covering agriculture and forest products, energy, metals and minerals based on open markets and compatibility of regulatory frameworks
	Other ways for improving market access for goods and services		Eliminate regulatory, procedural and infrastructure barriers at internal border; address regulatory restrictions on access and ownership in major industries; take steps to achieve true "open skies" with respect to air travel
	Greater people mobility		Address impediments to skilled labour mobility
Should we include defense?		Commit to substantially increased and stable multi-year funding for Department of National Defence	Expand North American defence alliance (airspace and maritime); increase Canada's military capability and ensure interoperability (land/sea/air); secure our territory; protect critical infrastructure
One currency — or stay with two?		Oppose calls to abandon existing system	Do not pursue monetary union at this point
Are new institutions in order?		Small advisory panel on future of trilateral N.A. relationship to explore permanent secretariat, permanent NAFTA court or N.A. development fund; formal N.A. leaders summit; consider Cabinet Committee on N.A. relations; expand mandate of PJBD to include security issues	New institutional framework (not supra-national); consider specialized joint-commissions for reinventing the border, maximizing economic efficiencies, ensuring resource security and building more effective N.A. defence alliance; shared institution to provide oversight at border
			See also the March 2003 CCCE publication: "The North American Security and Prosperity Initiative: Background, Questions and Answers".

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Barrett and Williams (2003)	Canadian Chamber of Commerce (2003)	Wolfe (2003)
Incremental and pragmatic negotiations on multiple fronts -- trade, security, immigration etc. -- within the context of clear strategic objectives	Begin an in-depth discussion and debate on options	Rather than pursuing a grand bargain, address new problems by recognizing and building on robust institutions we already share
Bilateral, open to engagement with Mexico (as an important member of NAFTA)	Preference for bilateral, particularly on border management issues	Bilateral or multilateral depending on the issues, with occasional inclusion of Mexico
Build on Smart Border; make infrastructure investments; increase cooperation to encourage labour mobility; encourage cooperation between security and police forces to jointly identify, track, and contain security risks	Develop a single, clearly identifiable point of contact on border issues; favour security perimeter strategy; business must also play a role in ensuring security	Not addressed explicitly; implicitly endorses Smart Border agreements
Move towards common external tariff at least for manufactured goods, either multilaterally or bilaterally	Study customs union as an option; examine sectoral tariff agreements (e.g. steel)	Avoid a custom union
Examine common approaches to rules, standards, and regulations when they inhibit free movement of goods, services and investment: do not maintain different ones simply for their own sake	Urgently select sectors for MRAs; urgently need to move forward, on "tested-once" principle	Continue informal work with U.S. counterparts across the board, recognizing that formal MRAs difficult to accomplish in practice, and full harmonization has low payoff relative to costs
Develop case law in NAFTA and WTO to limit applicability of U.S. trade remedy laws	Examine creation of permanent dispute resolution authorities	Work with other countries in WTO
	Possible co-operation on competition policy and other issues	
		Address softwood lumber using mutual recognition
Conduct bilateral negotiations and collaborate with the U.S. on WTO Doha Round (for example on agriculture, where we are both efficient producers)		Not addressed explicitly; implicitly: maintain NAFTA approach of using small working parties to solve access problems; avoid hub-and-spoke regionalism
Improve labour mobility		
Increase Canadian defence expenditures		
Maintain Canadian dollar for both economic and political reasons		
Permanent trade dispute court; foster and leverage cross-border links outside of government; build on NAFTA environmental and labour institutions	Permanent dispute resolution authorities	Use pre-existing institutions; avoid centralist institutions required by a customs union
Related Conference Board publications include chapters in the 2001-02 and 2002-03 Canadian Performance and Potential reports and a submission to the Foreign Policy Dialogue.	Also related is the Chamber's February 2003 presentation on the Canada-U.S. Economic Relationship to the Senate Standing Committee on Foreign Affairs.	

Table1: *Summary of proposals for next steps on North American integration* cont'd.

Category	Sub-Category	Gotlieb (2003)	"Securing growth" (Fraser, 2003)
What approach should we take?		Negotiate a grand bargain including national and economic security; establish a N.A. community of laws	Expand NAFTA and Smart Border Accord
Canada and the U.S., or is Mexico invited?		Bilateral, open to accession by Mexico	Mostly trilateral
Trade issues	*How to secure the physical border, while facilitating trade*	Establish common rules favouring movement of people, goods and services within N.A; establish common perimeter with common criteria for entering and moving within it	
	Harmonizing external tariffs as a way of eliminating rules of origin	Negotiate common external tariff for most goods	Review rules of origin; move to MFN-free where possible
	Harmonizing, or recognizing each other's standards	Develop common standards or MRAs	Make standards tested once, acceptable in North America (pharmaceuticals, industrial goods, consumer goods); establish common regulatory environment for electronic commerce, including cross-border consumer protection
	Resolving disputes and avoiding the big stick		Common approaches to exemptions from WTO safeguard actions
	A common competition policy?	Replace AD and CVD with common competition and anti-trust laws	
	Should natural resources sectors get special treatment?		Examine regulatory environment for trade in oil, gas and electricity to eliminate all impediments to N.A. energy security; review energy infrastructure, including pipeline capacity, electricity reliability and transmission
	Other ways for improving market access for goods and services		Expand opportunities for non-discriminatory government procurement, particularly for small- and medium-sized business
	Greater people mobility		Improve framework for temporary business entry to facilitate executive and professional mobility
Should we include defense?		Joint defence of perimeter	
One currency — or stay with two?			
Are new institutions in order?		Joint institutions but no political super-architecture	Review International Joint Commission work program with respect to improving environmental cooperation; establish mechanism for long-term binational border planning

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Burney (2003)	Senate Standing Committee on Foreign Affairs (2003)	Other C.D. Howe Institute Border Papers (2002-2003)
Develop a "robust bilateral agenda that goes beyond economic issues"	Assess possibility of cooperation on regulatory matters and other bilateral trade matters incrementally	
Bilateral	Mostly bilateral.	Demands of political symmetry in U.S. require Canada-U.S. deal to be open to Mexico (Ramirez de la O, 2002)
Strengthen N.A. security; could include common procedures to handle immigration and refugee policies	Accelerate implementation of Smart Border Accord by accelerating infrastructure construction and establishing pre-clearance at land-border crossings; launch campaign to inform U.S. decision makers that Canada takes security seriously	Make security high profile priority; continue to move functions away from border; recognize security risks in each country affect the other (Goldfarb and Robson, 2003); improve visitor visa tracking and enforcement (Rekai, 2002)
Establish common external tariff	Refrain from discussing establishing a customs union with the U.S.	Consider common external tariff; use sectoral approach or waive rules of origin when Canada-U.S. MFN tariffs are close (Goldfarb, 2003)
Pursue MRAs	Investigate impact of regulatory differences; seriously examine concept of mutual recognition; identify those sectors in which U S. and Canadian regulatory systems are similar and where MRAs could be applied	
	Initiate negotiations for trade remedy relief in sectors where producers would favour such action; retain NAFTA Chapter 19 mechanism as minimum in FTAA negotiations; work through WTO	Chapter 19 dispute resolution mechanism functioning well within its intended scope (Macrory, 2002)
Exploit reserves more efficiently; jointly commit to develop new sources of energy without subsidies or tax credits for extraction or transmission; develop electricity grid with more efficient and broader channels of transmission; establish joint commitments to reduce greenhouse gas emissions	Maintain objective of permanent arrangement with U.S. for an unrestricted market for softwood lumber; protect Canadian Wheat Board in WTO negotiations and work to tighten WTO anti-dumping rules	Canada can use energy as a lever (Bradley and Watkins, 2003)
		Review the full panoply of programs and policies administered at the border to eliminate as many as possible; find more efficient and less intrusive ways to administer remaining programs and policies (Hart and Dymond, 2003)
Labour mobility not on current agenda		
Greater commitment to defence		Make greater commitment to N.A. defence; increase budget to permit Canada to have a balanced military in miniature and carry out N.A., NATO, and UN peace and security commitments (Granatstein, 2002)
	Do not pursue single currency	Do not change monetary status quo; alternatives not desirable given trade-offs (Robson and Laidler, 2002)
Permanent Joint Council on Homeland Security; N.A. Commission on Economic Security	Implement NAFTA Article 2002 calling for a permanent NAFTA secretariat to examine ways to resolve disputes through NAFTA rather than the WTO, examine trade policy options, and also review relationship of developments in multilateral trade system to NAFTA framework	Strengthen institutional and other linkages that will facilitate full cooperation in addressing terrorist and other threats to the security and well-being of their citizens (Hart and Dymond, 2003)
		Other Border Papers not cited are available at www.cdhowe.org; A forthcoming paper by Jeffrey Schott and Gary Hufbauer will also contain a number of new proposals.

Dobson (2002), which launched the C.D. Howe Institute's Border Papers series, argued that because production networks are cross-border, Canada should pursue a new arrangement to achieve North American physical and economic security. Several related proposals on how best to deepen North American economic relations preceded Dobson including Schwanen (2001), Hart and Dymond (2002), and Pastor (2001)[4]. Dobson's proposal sparked a national debate and a flurry of related recommendations on strengthening North American integration, as shown in the table I use the Dobson proposal as a starting point to which I compare others.

I examine the various studies across several broad categories: overall strategy; whether to include Mexico; trade, including border issues, market access, harmonization or mutual recognition of standards, trade dispute resolution, competition policy, natural resources; defense cooperation; monetary and financial matters, and institutions. Some categories overlap, but for simplicity I place elements in only one category rather than repeat them. Blank cells in the table indicate that the author has not endorsed or commented specifically in that area.

What approach should we take?

If Canada were to pursue deeper, policy-led economic integration with the United States or the United States and Mexico, which approach would be best? Dobson (2002) argues for a big idea, more specifically a strategic bargain, and says that any strategy must include elements to ignite the interest of the Americans. As indicated in the table, most authors concur that a strategy is necessary, but differ in terms of the process or scope. Some argue for a "grand bargain", "common frontier", "North American community", "robust bilateral agenda", or "comprehensive approach". Others advocate instead an "incremental" approach. Though there are important procedural differences between the big and incremental camps, the variations may not be as great as the labels suggest.

The main dissimilarity between the big and incremental approaches is that an incremental policy would tackle the issues one by one, under the political radar screen, while a big idea would represent a new agreement that would have to be taken to the political level. Some who favour a step-by-step approach argue that it is more pragmatic, less risky, and that it deals with easier issues initially in order to build momentum for more difficult initiatives. Another commentator notes that incremental change requires few hard choices[5].

Big idea advocates argue that a step-by-step approach will fail to attract U.S. attention to Canadian concerns. A successful big idea, they argue, if it is broad

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4 Another precursor not included in the table is Fen Hampson and Maureen Molot, "Does the 49th Parallel Matter Any More? Vanishing Borders: Canada among Nations" (Oxford: Oxford University Press, 2000). This Backgrounder focuses on those published in 2001 and afterwards.

5 See Kelly, Stephen R. 2003. Notes on "Is there a NAFTA+? Maybe, but not for awhile." Presentation to Couchiching Conference on Continentalism: What's in it for us? August.

enough in scope to interest both parties[6], may be able to marginalize special interests in Congress and provide room for tradeoffs and deal making. In the late 1980s, Canada successfully captured the U.S. imagination and developed the necessary momentum for a Canada-U.S. FTA. In 1983, however, when Canada tried to negotiate sectoral FTAs with the U.S., it was difficult to find the necessary momentum and political support (Hart, 2002), and the project failed.

The two approaches may suggest different timelines. Negotiations towards incremental changes could, in theory, begin immediately, while Canada would likely have to wait until both countries have held 2004 elections to elevate discussion on any new arrangements to the political level.[7]

Some commentators say, however, that one approach does not preclude the other. For example, a big package does not prevent Canada and the U.S. from agreeing on a framework, completing easy items first and working on more difficult ones over time. This would be similar to the process that Ottawa and Washington used to implement the Canada-U.S. Smart Border Accord. Similarly, Canada could pursue incremental change, where possible, immediately and work towards a bigger package for the longer-term.

Clearly, the differences in approach are not as sharply drawn as often appears at first glance. For one thing, as the table shows, most proposals, regardless of what they are labeled, recognize that a strategic vision and coherent strategy are essential. For another, the labels do not always correspond to the impact the proposals would have if implemented, and the same ideas have been described as both big and incremental by different authors. For example, some proposals labeled incremental call for, among other elements, a permanent trade dispute court. This would represent a significant change, and is arguably bolder than many elements of proposals that are termed big, most which do not recommend large new institutions. As well, elements of packages called comprehensive, but not big, are strikingly similar to those described as big ideas. And some observers call such ideas as a Canada-U.S. customs union the big idea (Jackson, 2003), while others (Dobson and Gotlieb) suggest that a customs union might be one part of a larger package of initiatives. Some commentators say they do not advocate big ideas like a "customs union", while arguing for a common external tariff, which essentially defines a simple customs union.[8]

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6 A big idea that does not meet both countries' interests is therefore unattractive. A big idea that does not address U.S. security concerns will not be able to attract attention to Canadian economic concerns. But a big idea that is based solely on security will fail to meet Canadian economic objectives. A monetary union is arguably a big idea and would represent significant change, but there is little gain for the U.S. in it, and little to interest Canada (Laidler and Robson, 2002).

7 See Kelly, Stephen R. 2003. Notes on "Is there a NAFTA+? Maybe, but not for awhile." Presentation to Couchiching Conference on Continentalism: What's in it for us? August.

8 NAFTA trade ministers similarly say they will explore ways to harmonize most favoured nation tariff rates applied to third parties but that they reject the idea of a "customs union" as the next stage in their economic relationship (Steven Chase. "Canada, U.S., Mexico reject customs union as next step". October 8, 2003. Globe and Mail.)

Canada and the U.S., or Is Mexico Invited?

A key issue is whether to pursue bilateral arrangements or to include Mexico. Dobson argues for a Canada-U.S. approach, including Mexico where it makes sense. As the table shows, most Canadian commentators argue for a bilateral approach because Canada-U.S. issues differ from those between Mexico and the U.S in a number of key areas, such as migration. One Mexican commentator notes that the demands of political symmetry in the U.S. require any Canada-U.S. initiative to be open to Mexico, at least in the longer-term. In general, Canadian commentators propose that any arrangement be ultimately open to Mexico. U.S. and Mexican commentators argue for a trilateral approach up-front.[9]

Trade Issues

How To Secure the Physical Border, While Facilitating Trade

After the terrorist attacks of September 11, 2001, temporarily interrupted Canada's physical access to the U.S. market, a key concern was how to secure the border, while not impeding trade. Dobson argues that we should build on the smart-border agenda, including increased security and facilitation of flows of low-risk goods, people, capital and technology. She also recommends that we seek agreement on common procedures to handle third-country migrants and cargo. Most other commentators argue in favour of building on the smart-border approach, accelerating infrastructure investments and paying more attention to security. A number of them promote protecting entry into North America, or a "security perimeter", with common rules for the movement of people, goods and services within North America. Others suggest a Schengen-type approach in which Canadian and U.S. border guards look out for both countries' interests.

Harmonizing External Tariffs as a Way of Eliminating Rules of Origin

Because the FTA, and subsequently NAFTA, eliminated or substantially eased most tariffs at the Canada-U.S. border, proposals for improving market access focus on eliminating non-tariff impediments. These include rules-of-origin requirements. As a measure to improve market access, and as part of an examination of existing border barriers, Dobson says that as part of a larger package, Canada should consider a simple customs union. Such an arrangement would eliminate rules-of-origin requirements at the border by establishing a common set of tariffs against third countries. She proposes an "evolutionary

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9 A few commentators also raise the possibility of addressing bilateral issues in multilateral forums.

customs union", where the countries would monitor sectoral external tariffs and when they converge, adopt common external duties and eliminate NAFTA rules-of-origin requirements. While some commentators disagree and say that we should work within the existing framework and not pursue any kind of customs union, many other authors propose studying the possibility of a union.[10] Though most authors do not use the term "customs union", they say we should eliminate rules of origin and institute a set of common external tariffs for at least some industries, review rules of origin in general, or eliminate them where Canadian and U.S. external tariff rates are already close.

Harmonizing, or Recognizing Each Other's Standards

To further reduce barriers to accessing the U.S. market, Dobson recommends that Canada and the U.S. either adopt common standards, where there is no compelling policy reason for two different sets, or mutually recognize each other's standards where possible.

Common standards would involve Canada and the U.S. abandoning their own and moving toward a new standard, or, more likely, see Canada harmonizing its standards to the U.S. model. Mutual recognition would mean that both countries would keep their own standards but accept each others'. That would mean that goods would be tested, inspected and certified only once for the entire Canada-U.S. market.[11] Some authors propose harmonizing standards and regulations. Most, however, like Dobson, propose some combination of mutual recognition and harmonization. One author proposes that we urgently select sectors for mutual recognition agreements, while another says that such formal accords are difficult to achieve, so we should concentrate on informal work with U.S. counterparts. Few proposals go into more detail about how Canada might actually implement mutual recognition agreements, though one commentator recommends that the two countries harmonize domestic standards and rules in order for common cross-border standards to be effective.

Resolving Disputes and Avoiding the Big Stick

An unresolved issue for Canadians is how to settle trade disputes and deal with retaliatory U.S. trade- remedy actions. Though some commentators note that there are very few disputes in relation to trade volumes and that the current system functions well, most commentators say that Canada needs more effective ways to deal with those that remain. They disagree, however, on means. Some authors argue that Canada and the U.S. need a more permanent dispute-resolution mechanism, such as a trade dispute court. Others advocate developing a common

10 Bank of Canada Governor David Dodge argues that if Canada wants to reduce hassle and expense at the border, Canadians should pursue a common external tariff and common border practices for trade from overseas (Dodge, 2003).

11 There already exist limited arrangements between Canada and the U.S. for mutual recognition.

trade-remedy regime, in effect a common set of trade remedy actions against third countries, eliminating those actions between Canada and the U.S. One commentator argues that Canada should seek relief in sectors where producers would support it. Others say that the most effective means to deal with trade-remedy actions is indirectly, by creating a common federal and state-provincial subsidy policy, by developing case law, or by working through the World Trade Organization.

A Common Competition Policy?

Another way of dealing with trade- remedy obstacles is to replace anti-dumping laws with shared competition laws. Dumping would then be dealt with through predatory pricing provisions, which have a narrower scope than dumping laws. Dobson suggests harmonizing to a single North American standard for competition. A few others support the idea of common competition and anti-trust laws. Several authors do not propose any changes to competition policy because they favour a permanent trade dispute court.

Should Natural-Resource Sectors Get Special Treatment?

Though some commentators address trade disputes through broader economy-wide proposals, a few address natural-resource sectors separately because most trade disputes are confined to these sectors.

Dobson proposes a "secure natural resources area" to reduce trade disputes, proactive development of energy supplies, and mutual recognition of regulatory regimes including energy and forest products. Several other proposals echo Dobson's call for greater energy cooperation, including examining the regulatory environment for trade in oil, gas and electricity to eliminate impediments to North American energy security. One author also proposes joint commitments on greenhouse gas reduction. A few others also suggest some sort of resource-security pact as a way of addressing remaining irritants. They propose an accord based on principles of trade openness and common regulatory frameworks. Another author proposes addressing the softwood lumber dispute through the use of mutual recognition of each other's frameworks.

Other Ways for Improving Market Access for Goods and Services

In addition to the measures outlined in the previous sections, Dobson recommends eliminating remaining unnecessary border barriers for goods and services. Like her, most commentators propose reviewing border policies to eliminate non-critical impediments. A few propose greater access to government procurement opportunities and more open services markets.

Greater people mobility

Though a few authors say that labour mobility is not a priority, many contend that eliminating barriers to the movement of people should be included in any new set of initiatives. Most suggest increased labour mobility for skilled workers, in particular, and a few commentators recommend increased mobility for retirees. One of the studies on trilateral relations calls for an increase in temporary work permits available to Mexicans.

Should We Include Defense?

The proposals in the table start from the premise that Canada's primary interest in deeper relations is economic — to secure access to the U.S. market. Some commentators argue, however, that Canada must pay greater attention to U.S. security and defense concerns, as well, in order to draw attention to Canadian interests. Dobson argues that a new arrangement should, therefore, go beyond strict economic issues to embrace broader concerns, such as defense. She advocates developing a distinctive Canadian contribution, ranking with the best in the world, for North American defense. While a number of writers support making a greater contribution to defense, and expanding the North American defense alliance, others stay away from non-economic proposals. Some argue that market access and security arrangements should be pursued on their own merits and not linked. Many commentators, however, agree to some degree that a strictly economic proposal that fails to address U.S. security concerns would have little traction in Washington.

One Currency — or Stay With Two?

Some analysts have proposed adopting a common currency in North America to reduce border transactions costs. Dobson, however, argues that monetary union is a non-starter because, even if it were in Canada's interests, it is of no interest to the U.S.. Among the proposals, there is considerable — though not unanimous[12] — consensus that it is not currently in Canada's national interest to pursue a common Canada-U.S. currency or to adopt the U.S. dollar. A few commentators call for greater financial-regulation cooperation and regular meetings between central bank officials, though this is not a high priority for most.

Are New Institutions in Order?

A key part of Europe's integration exercise was the establishment of new supranational institutions. NAFTA, however, established few new institutions. Dobson argues that we should create new institutions only where necessary, and then only with clear mandates and sunset provisions. She notes that many

12 See Courchene (2003) for a view in favour of monetary integration.

structures already exist that are not well utilized. In contrast, a few analysts support European-style supranational institutions, including a North American commission and parliamentary group. Others, as mentioned, propose a permanent trade-dispute court. Most, however, argue for limited new institutions or expanded mandates for pre-existing institutions. To reduce trade disputes, one author suggests common, independent bodies to provide fact-finding on subsidies, environmental practices, qualifications or product standards. A few propose permanent bodies to deal with border issues, such as long-term planning, the removal of non-tariff barriers, homeland security and the relationship between NAFTA and the WTO. Other authors favor an expanded mandate for the Permanent Joint Board of Defense to enable it to deal with security issues. Many proposals also underline the need for greater Canadian diplomatic representation in the U.S. and improved relations between the two countries at all levels.

Those Opposed

Not all commentators favour deeper bilateral integration. Campbell (2003) argues that further policy-led integration should be avoided, that the existing arrangements should be reshaped and that NAFTA's provisions should, in fact, be scrapped, where feasible, in order to reclaim policy sovereignty. Where necessary, he argues, integration should be negotiated under equitable terms that are clearly in the national interest, ruling out customs-union-type steps. Jackson (2003) argues that NAFTA has not lived up to its promise, and only a relatively small measure of further integration is desirable. He suggests simplifying border procedures and negotiating sectoral trade arrangements in closely integrated sectors, as well as reviewing the Chapter 11 investor-state provisions and replacing NAFTA side-deals on labour and environment issues with more effective means to create a higher floor for labour rights and environmental standards.

Diversify Instead of Deepen?

Some analysts oppose further bilateral integration on the grounds that Canada is already too dependent on the U.S. and should diversify its trade. Ostry and Winham (2003) argue that the government should undertake a major analytical effort to determine what scope exists in the Canadian economy, and within WTO guidelines, to expand trade with regions outside North America, especially Latin America. Campbell (2003) suggests Canada revisit the 1972 Pierre Trudeau government's "third option" to diversify trade, economic and cultural relationships with nations other than the U.S. He recommends that Canada do this through means other than free-trade agreements. The Senate Standing Committee on Foreign Affairs (2003) recommends that Canada make signing free-trade agreements with Asia a priority, while keeping Europe in its sights.

Hodgson (2003) takes a more skeptical view of diversification. Even if diversifying away from the U.S. were possible, he argues that it is not at all evident that it would improve Canada's long-term capacity to create wealth. Canada's relatively large share of trade with the U.S. is due to positive economic factors -

strong U.S. purchasing power, superior market access under the FTA and NAFTA, good growth potential and manageable trade risks - as well as the benefits of geography, history and comparative advantage. The U.S. economy is also highly diversified by sector and region, with little overriding country risk as is found elsewhere. Gotlieb (2003) notes that the third option was ineffective in diversifying trade: 65 percent of Canada's exports went to the U.S. when the policy was announced and that number was close to 80 percent 11 years later.

Conclusion

Some commentators oppose closer economic relations with the U.S., raising concerns about sovereignty and desires for trade diversification. Most, however, agree that, because of the realities of cross-border production networks, a coherent strategy, or vision, for managing closer Canada-U.S. economic relations is both necessary and practical. These authors present similar proposals on the basic substance of a bilateral or trilateral set of initiatives, though they may disagree on the scope, the best process or the proper labels for their strategies.

Many proposals examined in this paper suggest Canada pursue a bilateral initiative, which is ultimately open to Mexico, though some argue for including Mexico up front. Most wish to build on the smart-border agenda and remove unnecessary barriers to the free flow of goods, services, people, and investment, including considering a common external tariff to eliminate rules of origin for some industries. Most analysts recognize that some combination of mutual recognition and harmonization is preferable to the pursuit of strict harmonization. Many agree that a more effective way must be found to eliminate or reduce trade-remedy, or retaliatory actions, though they disagree on the means to get there - whether through a permanent trade-dispute court, a resource- security pact, or a common set of competition laws. Most commentators reject monetary integration at this point. Though some stick strictly to economic issues, most acknowledge the importance of addressing security concerns, and possibly defense. And most authors recommend working with existing institutions, or limited-mandate new ones, rather than building grand new supranational institutions.

Though there are a number of similarities among the proposals for deeper North American integration at a high level, most analysts present few details. If the Canadian government is to make an informed decision about pursuing closer economic relations with the United states, a constructive next step would be to move beyond labels to a deeper assessment of the desirability, feasibility and details of these proposals.

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